

Message Text

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ACTION ARA-14

INFO OCT-01 AF-10 EUR-12 EA-10 NEA-10 ISO-00 SOE-02
AID-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-08
DOE-11 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15 STR-07
TRSE-00 ACDA-12 PA-01 /164 W
-----095229 022335Z /62

P R 022215Z MAR 78
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC PRIORITY 1410
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMCONSUL DHAHRAN
AMEMBASSY BONN
AMEMBASSY BRASILIA
AMEMBASSY DOHA
USINT HAVANA
AMEMBASSY JAKARTA
AMEMBASSY JIDDAH
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MANAMA
AMEMBASSY MOSCOW
AMEMBASSY MUSCAT
AMEMBASSY PARIS
AMEMBASSY QUITO
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY OTTAWA
AMEMBASSY VIENNA

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E.O. 11652: GDS
TAGS: ENRG, VE
SUBJECT: OIL PRODUCTION AND EXPORTS LOOKING BETTER

REF: (A) CARACAS 1720 (NOTAL)

1. SUMMARY. OIL PRODUCTION HAS RISEN SLOWLY FROM ITS NAIDIR OF EARLY FEBRUARY, AND THERE ARE INCREASING SIGNS THAT EXPORTS HAVE IMPROVED EVEN MORE. WE UNDERSTAND THAT THE LARGE EXCESS INVENTORIES HELD AT THE BEGINNING OF THE YEAR HAVE BEEN REDUCED TO NEAR NORMAL LEVELS. WHILE INCREASED INTEREST IS BEING SHOWN IN GOVERNMENT TO GOVERNMENT SALES, INCLUDING A REPORTED REVIVAL OF THE USSR-CUBA OIL SWAP, THERE IS NO INDICATION OF ANY BASIC SHIFT AWAY FROM THE US MARKET.END SUMMARY.

2. VENEZUELAN OIL PRODUCTION FOR THE WEEK ENDING FEB. 22 AVERAGED 1.66 MILLION BARRELS PER DAY, A SUBSTANTIAL IMPORVEMENT OVER THE 1.44 MILLION DAILY RATE RECORDED THE FIRST WEEK OF FEBRUARY. AVERAGE PRODUCTION FOR THE YEAR, THROUGH FEB. 22, IS NOW RUNNING AT 1.68 MILLION, 28 PERCENT BELOW THE LEVEL OF A YEAR AGO AND 25 PERCENT BELOW THE 2.24 AVERAGE FOR ALL OF 1977.

3. OFFICIAL EXPORT DATA IS NOT AVAILABLE. RECENT STATEMENTS BY THE MINISTER OF ENERGY INDICATED THAT EXPORTS IN FEBRUARY HAD RISEN TO ABOUT 1.8 MILLION BPD, WHICH, HE SAID, WAS ABOUT 200,000 BARRELS ABOVE THE JANUARY AVERAGE, AND APPROACHED 1.9 MILLION BY THE END OF THE MONTH. THIS SEEMS TO AGREE WITH VARIOUS PRIVATE ESTIMATES. ASSUMING FROM THIS THAT AVERAGE EXPORTS FOR THE FIRST TWO MONTHS ARE ON THE ORDER OF 1.7 MILLION BPD, AND ADDING DOMESTIC SALES OF 250,000 BPD, WE THEREFORE
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ESTIMATE DAILY SALES FOR THIS PERIOD OF ABOUT 1.95 MILLION BARRELS. THIS, IN TURN, WOULD REPRESENT A DRAWDOWN OF INVENTORIES OF 270,000 BARRELS PER DAY DURING THE SAME PERIOD. VENEZUELA ENTERED 1978 WITH UNUSUALLY LARGE INVENTORIES, PARTICULARLY OF RESIDUAL FUEL OIL. ONE PRIVATE SOURCE ESTIMATED "EXCESS" STOCKS AT THE BEGINING OF THE YEAR AT 22.5 MILLION BARRELS, EQUIVALENT TO 250,000 BPD FOR THREE MONTHS. EXPORTS OF 1.7 MILLION BPD WOULD REPRESENT A 14 PERCENT DECLINE FROM LAST YEAR'S AVERAGE OF 1.98 BPD.

4. IN CONTRAST TO THE UNIVERSALLY BLEAK OUTLOOK OF JUST A FEW WEEKS AGO, AT LEAST SOME INDUSTRY SOURCES NOW APPEAR REASONABLY OPTIMISTIC ABOUT SALES XBPS, PARTICULARLY FOR THE SHORT TERM. WE ARE TOLD THAT RESIDUAL FUEL OIL INVENTORIES ARE BEING RAPIDLY WORKED OFF, AND NOW MAY BE CLOSE TO THE IDEAL LEVEL FOR THIS TIME OF YEAR. THIS TURNAROUND IS ATTRIBUTED TO THREE FACTORS: (1) PROLONGED COLD WEATHER; (2) THE COAL STRIKE, BOTH OF WHICH HAVE APPARENTLY INCREASED US DEMAND FOR RESIDUAL; AND (3) CUT-BACKS BY SOME CARIBBEAN REFINERS IN THEIR PROCESSING OF PERSIAN GULF CRUDE, WHICH IN PUT IS DUE TO THE MORE COMPETITIVE PRICES BEING OFFERED BY VENEZUELA ON RESIDUAL. ONE SOURCE INDICATES THAT FOR THE FIRST TIME IN MANY MONTHS VENEZUELAN RESIDUAL FUEL OIL, BOTH

HIGH AND LOW SULFUR, APPEARS COMPETITIVELY PRICED. OTHER SOURCES, HOWEVER, DISAGREE, SAYING THAT STOCKS OF HIGH SULFUR RESIDUAL REMAIN VERY HIGH, AND THAT SOME PRODUCT PRICES, AS WELL AS SOME CRUDES, REMAIN OVERPRICED.

5. THE EXPORT DECLINE HAS RESULTED IN ATTENTION BEING GIVEN TO GOVERNMENT TO GOVERNMENT SALES AND DIVERSIFICATION AWAY FROM THE US MARKET. A RECENT RELEASE STATED THAT THE NATIONALIZED INDUSTRY HAS SIGNED CONTRACTS WITH THE STATE OIL COMPANIES OF PERU, COSTA RICA, MEXICO, SPAIN, IVORY COAST, ECUADOR, COLOMBIA, CHILE, CANADA, AND ITALY TOTALING ABOUT 100,000 BARRELS PER DAY. (ONE REPORT INCORRECTLY INFLATED THIS TO 1 MILLION BPD). A REPORT FROM SPAIN INDICATED THAT THE STATE OIL COMPANY, EMPETROL, WAS ABOUT TO

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SIGN AN ADDITIONAL CONTRACT FOR 20,000 BPD OF MEDIUM CRUDE AND AT THE SAME TIME WOULD PUT INTO EFFECT THE OFT-REPORTED BUT APPARENTLY NEVER IMPLEMENTED QUADRILATERAL OIL SWAP INVOLVING VENEZUELA, CUBA, SPAIN AND THE USSR FOR A MINIMUM OF 500,000 TONS OF CRUDE A YEAR (ABOUT 10,000 BPD).

6. COMMENT. THESE LATEST REPORTS WOULD SEEM TO INDICATE THAT THE WORST OF THE EXPORT SLUMP MAY BE OVER. AS REPORTED EARLIER (REF A), THE IW IMPLICATIONS WERE OPERATIONAL AND PSYCHOLOGICAL. THE ELIMINATION OF EXCESS FUEL OIL INVENTORIES WOULD EASE THE

MAJOR OPERATIONAL PROBLEM BY PERMITTING REFINERY RUNS TO INCREASE AND THUS MAINTAIN DOMESTIC SUPPLIES OF GASOLINE. A RETURN TO NEAR NORMAL PRODUCTION AND EXPORT LEVELS IN THE NEXT FEW MONTHS WOULD DO MUCH TO RESTORE CONFIDENCE IN THE OIL POLICIES OF THE GOV AND PETROLEOS DE VENEZUELA, PARTICULARLY AS IT BECOMES APPARENT THAT OTHER OPEC COUNTRIES HAVE ALSO SUFFERED A DECLINE, AND WOULD REDUCE THE FINANCIAL AND BUDGETARY IMPLICATIONS TO A MORE MANAGEABLE SIZE.

7. IT REMAINS TO BE SEEN WHETHER THE GOV WILL GO AHEAD WITH ITS PLANS TO REDUCE GOVERNMENT SPENDING AND LIMIT IMPORTS IF, IN FACT, EXPORT EARNINGS DO RETURN TO CLOSE TO NORMAL LEVELS. THE WIDESPREAD PUBLIC CONCERN AND POLITICAL OUTCRY OVER THE REDUCED EXPORTS PROBABLY OFFERS THE GOVERNMENT THE ONLY REAL OPPORTUNITY IT MAY HAVE BEFORE THE NATIONAL ELECTIONS IN DECEMBER TO TAKE SUCH ACTIONS, BUT THESE WOULD STILL BE UNPOPULAR IN SOME SECTORS.

8. FINALLY, IN SPITE OF THE PUBLICITY ACCORDED GOVERNMENT TO GOVERNMENT SALES, THERE IS NO INDICATION THAT THERE ARE ANY SERIOUS EFFORTS OR INTENT TO SUBSTANTIALLY CUT VENEZUELA'S DEPENDENCE ON ITS NATURAL

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NORTH AMERICAN MARKETS. CROWLEY

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